

Message Text

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ACTION ARA-20

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EB-11 FEA-02 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SPC-03 SS-20

STR-08 PA-04 PRS-01 FRB-02 XMB-07 OPIC-12 LAB-06

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SWF-02 FTC-01 /275 W

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O 291411Z MAR 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 3186

AMEMBASSY BRASILIA IMMEDIATE

AMEMBASSY SANTIAGO

AMCONGEN RIO DE JANEIRO IMMEDIATE

C O N F I D E N T I A L CARACAS 2700

DEPARTMENT PLEASE PASS TREASURY

E.O. 11652: N/A

TAGS: OVIP (SHULTZ, GEORGE P.), EFIN, XM, ENRG

SUBJECT: SECRETARY SHULTZ' MEETING WITH FINANCE MINISTER

HECTOR HURTADO, MARCH 28, 1974

1. SECRETARY SHULTZ' MEETING WITH FINANCE MINISTER HURTADO TODAY CONCENTRATED ON UTILIZATION OF VENEZUELAN EXCESS REVENUE RESULTING FROM INCREASED OIL PRICES. THE MEETING WAS CORDIAL AND CANDID, WITH PLEASANT TONE THROUGHOUT. SHULTZ ASSUMED POSTURE OF PRIMARILY LISTENING AND LEARNING OF VENEZUELAN PLANS AND VIEWS.

2. HURTADO OPENED MEETING BY STATING THAT VENEZUELA HAS REQUESTED
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PERMISSION FROM IDB TO ESTABLISH FIDUCIARY FUND FOR NEW RESOURCES.

IN RESPONSE TO SECRETARY SHULTZ' REMARK THAT TRUST FUND SOUNDED VERY INTERESTING AND HIS REQUEST FOR MORE DETAILS, HURTADO MADE THE FOLLOWING COMMENTS. HURTADO SAID PRESIDENT CARLOS ANDRES PEREZ HAS ESTABLISHED A POLICY OF AUSTERITY IN USING NEW RESOURCES AND ADDED THAT BY ESTABLISHING INVESTMENT FUND, CONTROL OF FUND IS TAKEN OUT OF FINANCE MINISTRY'S DIRECTION WHICH WILL REDUCE MANY OF PROBLEMS THAT WOULD ENSUE FROM DEMANDS WITHIN GOVERNMENT. FIFTY PERCENT OF EXCESS OIL REVENUE WILL BE PUT INTO A NATIONAL INVESTMENT FUND-PURPOSE OF WHICH IS TO CHANNEL ABROAD INVESTMENTS WHICH WILL INSURE A RETURN AS WELL AS LIQUIDITY THAT WOULD FINANCE IN FUTURE DOMESTIC PROJECTS WHEN NEEDED. IN ORDER TO ESTABLISH THIS FUND GOVERNMENT NEEDS ADVICE FROM COMMERCIAL BANKS AND OTHER SOURCES. OTHER PART OF FUNDS WOULD BE USED TO FINANCE INTERNAL PROJECTS AND PROJECTS IN OTHER COUNTRIES LATIN AMERICAN SUBREGION THROUGH MULTILATERAL ORGANIZATIONS. PURPOSE OF MULTILATERAL EXPENDITURE OF FUNDS IS TO AVOID BILATERAL NEGOTIATIONS AND ENSUING TENSIONS. AS CONTRASTED TO REGIONAL INVESTMENT WHICH WOULD UTILIZE EXISTING REGIONAL AND SUBREGIONAL ENTITIES. INVESTMENTS MADE ON GLOBAL BASIS WOULD BE GUIDED BY OPEC DECISIONS, SUCH AS IDEA OF FORMING NEW BANK. HURTADO SAID HE IS NOT PERSONALLY ENTHUSIASTIC ABOUT THIS ASPECT OF INVESTMENT, AND BELIEVE EXISTING INSTITUTIONS COULD HANDLE THIS.

4. INVESTMENT IN LATIN AREA WOULD BE MADE PRIMARILY THROUGH IDB, CARIBBEAN DEVELOPMENT BANK, CENTRAL AMERICAN BANK AND ANDEAN DEVELOPMENT CORPORATION. IN ORDER TO PROVIDE OTHER ASSISTANCE TO LATIN AMERICAN LDC'S VENEZUELA WOULD EXAMINE OUTSTANDING LOANS IN IDB SUCH AS THOSE RESULTING FROM SOCIAL PROGRESS TRUST FUND ESTABLISHED BY U.S., AND CONSIDER PREPAYMENT.

5. VENEZUELA ALSO WILL CONSIDER FINANCING THE PORTION OF IDB LOANS NOT FINANCED BY IDB SUCH AS SUPPLIER CREDITS AND DOMESTIC COSTS. THE TRUST FUND WHICH VENEZUELA SEEKS TO SET UP WITHIN THE IDB WOULD NOT BE SUBJECT TO VETO (READ U.S.) AND WOULD BE OPEN TO OTHER RELATIVELY AFFLUENT LATIN AMERICAN COUNTRIES WHO ARE IN A POSITION TO MAKE DOLLAR CONTRIBUTIONS OR THEIR EQUIVALENT. THESE SUBSCRIPTIONS TO THE TRUST FUND WOULD ENABLE THE IDB TO GO TO THE INTERNATIONAL CAPITAL MARKET AND ISSUE BONDS GUARANTEED BY THE FUND. THROUGH THESE VARIOUS MEANS VENEZUELA SEEKS TO ACHIEVE AN AID TARGET OF ONE PERCENT (1 PCT) OF GNP.

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6. LENDING FROM TRUST FUND WOULD BE ON CONCESSIONARY AS WELL AS CONVENTIONAL TERMS. HURTADO EMPHASIZED THAT INITIALLY THE FUND SHOULD CONCENTRATE ON POORER COUNTRIES THROUGH CONCESSIONARY LOANS. HOWEVER, VENEZUELA WOULD DEPEND ON THE IDB TO PROVIDE TECHNICAL ASSISTANCE IN DECIDING ON FEASIBILITY OF LOAN PROJECTS. A PRIMARY PURPOSE OF THE FUND WOULD BE TO INCREASE EXPORT CAPACITY OF LDC'S, ESPECIALLY THOSE OF NATURAL RESOURCES.

7. FUND WOULD ALSO ACT AS CATALYTIC AGENT FOR MULTINATIONAL PROJECTS. HURTADO CITED AS EXAMPLE A JOINT PROJECT WITH COSTA RICA USING COSTA RICAN BAUXITE AND VENEZUELAN ENERGY TO MANUFACTURE ALUMINUM BOTH FOR INTERNAL AND EXTERNAL MARKET. THE OVERALL OBJECTIVE WOULD BE TO INCREASE AND ACHIEVE A GLOBAL REDISTRIBUTION OF INCOME. HURTADO ADDED MANY OF HIS IDEAS WERE STILL GENERAL AND WOULD HAVE TO BE WORKED OUT CONCRETELY.

8. SECRETARY SHULTZ SAID VENEZUELA'S PLANS FOR UTILIZING ITS EXCESS REVENUES ARE VERY IMPRESSIVE AND REMARKED THAT MOST LDC'S ARE FACING A PROBLEM NOW OF HAVING TO PAY HIGHER OIL PRICES. HE RAISED QUESTION THIS POSES OF HOW THESE COUNTRIES CAN PURSUE DEVELOPMENT WHEN IN SOME CASES THE EQUIVALENT OF THEIR EXISTING TOTAL FOREIGN EXCHANGE RESERVES WOULD BE NEEDED TO PAY FOR OIL ALONE.

9. HURTADO SAID A RECENT STUDY CARRIED OUT BY IBRD SHOWS A SECULAR INCREASE IN PRICES OF ENERGY, FOOD AND MANUFACTURED GOODS. HE SAID VIRTUE OF INCREASE IN OIL PRICE ALLOWS VENEZUELA TO OPEN QUESTION OF PRICE OF IMPORTS OF MANUFACTURED GOODS AND RAW MATERIALS AND ENABLES IT TO COME TO GRIP WITH OVERALL PROBLEM OF A JUST WORLD DISTRIBUTION OF INCOME.

10. SECRETARY SHULTZ SAID THERE WERE POSITIVE SIDES AS WELL AS NEGATIVE IN OIL PRICE INCREASE FROM U.S. POINT OF VIEW. IT HAD AWAKENED EVERYONE, ALBEIT ABRUPTLY AND IT HAS RESULTED IN REDUCTION OF TRAFFIC FATALITIES. HE THEN OBSERVED THAT WHEN PRICE OF ANYTHING RISES SUBSTANTIALLY IT INDUCES INCREASED PRODUCTION OF NEW SUPPLIES AND CLOSE SUBSTITUTES. HE CITED THE EXAMPLE OF U.S. WHEAT PRODUCTION. HIGH PRICES IN WHEAT HAVE INDUCED GREATLY INCREASED PRODUCTION AND THERE IS ALREADY EVIDENCE OF REDUCTION IN PRICE. COUNTRIES WHICH HAD BEEN HOLDING BACK WHEAT
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IN ANTICIPATION OF HIGHER PRICES ARE NOW SELLING AND THUS BRINGING DOWN PRICE FURTHER. SUPPLY AND DEMAND FACTOR DOES AFFECT PRICE, AFTER ALL.

11. IN RESPONSE TO SECRETARY SHULTZ' QUESTION CONCERNING VENEZUELA'S PLANS FOR ITS PETROLEUM INDUSTRY, HURTADO SAID THAT ALTHOUGH A DECREE COVERING REVERSION MAY NOT BE ISSUED THIS YEAR, THE SYSTEM FOR REVERSION WILL BE DEFINED BY THE GOVERNMENT THIS YEAR. HE ADMITTED THERE WERE MANY PRACTICAL PROBLEMS THAT WOULD HAVE TO BE ADDRESSED IN CONJUNCTION WITH REVERSION. FOR EXAMPLE, VENEZUELA HAS NOT YET DECIDED WHETHER EXISTING PETROLEUM ENTERPRISES WILL BE ABSORBED IN THEIR ENTIRETY, OR PARTIALLY BE A NATIONAL PETROLEUM COMPANY OR WHETHER CVP WOULD BECOME A HOLDING COMPANY. WHILE DOMESTIC EXPLORATION, EXPLOITATION, REFINING AND INTERNAL MARKETING MOST SURELY WILL BE

HANDLED SOLELY BY VENEZUELAN, THE POSSIBILITY MAY EXIST FOR SALES THRU OR JOINT VENTURES WITH INTERNATIONAL FIRMS FOR FOREIGN MARKETING. THIS PROBLEM WILL HAVE TO BE STUDIED CAREFULLY. HURTADO EMPHASIZED THAT GOVERNMENT DOES NOT SEEK A CONFRONTATION WITH INTERNATIONAL PETROLEUM COMPANIES. ONLY OUTSTANDING PROBLEM WITH COMPANIES NOW IS HOW FAST REVERSION SHOULD TAKE PLACE. THE CONFRONTATIONAL PHASE HAD BEEN PASSED SEVERAL YEARS BEFORE.

12. REVERTING TO IDB MEETING HURTADO SAID VENEZUELA WOULD WELCOME U.S. COMMENTS ON ITS PROPOSED TRUST FUND. SECRETARY SHULTZ CONCLUDED THAT VENEZUELAN PROPOSAL IS A CONSTRUCTIVE ONE AND COMMENTED ON USEFULNESS OF IDB AND FACT THAT IT CAN BE MOLDED TO WISHES OF ITS MEMBERS. THE MEETING ENDED ON NOTE OF BOTH SIDES LOOKING FORWARD TO FURTHER TALKS IN SANTIAGO. MCCLINTOCK

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